# Weekly Market Report

**Equity research | News & Analysis**

# MALAWI

## Political and economic news

*Tobacco earnings hit USD 17.9m in two weeks*

Revenue from tobacco, the country's main foreign exchange earner hit USD 17.9m (MWK 13bn) in the week ending 20 April 2018 – a jump from the previous week's USD 5.7m according to statistics from Tobacco Control Commission. The revenue was realised from 12.6m kg of tobacco sold at Lilongwe, Limbe and Chinkhoma auction floors at an average price of USD 1.42/kg. The fourth auction floor; Mzuzu is expected to open on 30 April. The output comprised burley tobacco, grown by the majority of small farmers, which raked in USD 15.8m averaging USD 1.33/kg and flue-cured, mostly the preserve of large estates, which raised USD 2.1m at an average of USD 2.72/kg. During the comparable period last year the sales were USD 6m (MWK 4.5bn) from 3.7m kg sold at an average price of USD 1.61/kg. TCC's chief executive officer Kayisi Sadala said the prices have improved this year in line with the quality of the leaf being sold. According to TCC's second round of crop estimates, the country produced 147.8m kg of all tobacco types for 2018 selling season which is 14% below demand at 171m kg. However, compared to last season, there is increased output of about 38% from 126m kg produced in 2017 selling season. Tobacco contributes about 13% to the country's GDP. (Source: *The Nation*)

## Company news

*NICO Holdings plc FY17 earnings up 307% driven by life insurance line*

NICO Holdings plc released its FY17 results showing a 307% earnings increase on FY16 (before restatement) to MWK 11.1bn (USD 15.1m) thanks to significant contribution from its life and pensions subsidiary; NICO Life Insurance Company Limited in which it holds a 51% stake. NICO Life contributed 60% into the group's net consolidated revenue and over 80% towards the group's earnings – making it the star performer and cash cow for the group. NICO Holdings has a total of five subsidiaries; two of them in short term insurance; NICO General and NICO Zambia; one in banking; NBS Bank Plc and 100% held asset management firm; NICO Asset Managers. Earnings attributable to shareholders of the group grew to MWK 5.8bn in FY17 from MWK 1.2bn before reinstatement in FY16.

Problem child; NBS Bank showed a reduction in its loss to MWK 1bn from a restated prior year loss of MWK 8.4bn. What is interesting is that the restatement relates to impairment provisions deemed to be related to prior years in the amount of MWK 4.1bn. The interpretation of this prior year adjustment is debatable as a question has to be raised as to when these impairments were discovered. Otherwise another school of thought might look at this as simply transferring last year profits to the current one. If one chooses to ignore prior year restatement and report the impairments in FY17, NBS Bank's performance would be worse off than FY16 as it would have reported a loss of MWK 5.2bn in FY17 compared to a loss of MWK 4.3bn in 2016. This makes it all the more interesting considering the bank raised MWK 11.8bn in a rights issue in July 2017.

In short term insurance the group seems to have posted average performance thanks to NICO General, the Malawi short-term insurance subsidiary. While its Zambian counterpart is said to be profitable, it was beset by delays in payment of premium debt by its clients. NICO Asset Managers Limited has grown its portfolio of funds under management in FY17 by 41% to MWK 353bn. It is showing great promise as its contribution to the earnings pot was 5%. Investment income should have benefited from the MSE rally which resulted in the Malawi All Share Index registering a 62% growth during the year. Share of profits from associated companies was negative and insignificant – presumably affected by losses said to have been incurred in Sanlam Tanzania.

The Group's focus seems to "stick to the knitting" by concentrating on both life and short term insurance business – especially the historically strong performers in Malawi and Zambia. The group seems to realise that the expansion drive was too ambitious and too rapid and did create a strain on resources from the mature businesses. A step back has been taken where the group has roped in Rabobank to straighten out the banking business and have over the past three years reduced its stakes in Tanzania and Uganda to associate level and enabled Sanlam to take over control as part of their Africa growth focus. This in itself is a good strategy as it allows the group to play to its strength and reclaim lost ground. NBS Bank remains a thorn in the flesh especially with its discovered NPLs although the picture painted for its future looks bright. Rabobank has a good track record in the region and one hopes they will turn around the problem child to a star. We rate the stock as a HOLD pending FY18 interims.

**NICO HOLDINGS PLC**

| FY 17 NICO ("MWK MILLION") | 2017 | 2016 | % CHG |
|---|---|---|---|
| Revenue | 132,075 | 101,779 | 29.8% |
| Dividend income | 2,436 | 1,728 | 41.0% |
| Long-term policy holder benefits | -46,426 | -28,019 | -65.7% |
| Net income | 88,085 | 75,488 | 16.7% |
| Operating expenses | -45,371 | -40,669 | -11.6% |
| Management expenses | -24,029 | -32,200 | 25.4% |
| Earnings before tax | 16,479 | -1,404 | |
| Net earnings | 11,123 | -1,404 | |
| Attributable earnings | 5,819 | -816 | |

Source: Company filings

*NBS loss improves in FY17 with a prior year adjustment*

NBS Bank Plc – a subsidiary of NICO Holdings Plc has released its FY17 results showing a loss of MWK 1bn (USD 1.3m) compared to FY16 loss of MWK 8.4bn on the back of a restatement of MWK 4bn losses in the prior year. The adjustment is said to relate to prior year impairment losses amounting to MWK 4.1bn which have been reinstated in FY16 – proving to be a saving grace as the bank would have otherwise reported a worse off loss of MWK 5.1bn compared to FY16 loss of MWK 4.3bn before the adjustment.

Interest income was 2% lower to MWK 10.5bn while net interest income increased 20% to MWK 7.2bn. Non-interest income was down 12% to MWK 6.8bn. Net interest margins improved from 55% in prior year to 68%. Customer deposits grew 15% to MWK 76.9bn while interest expense went down 30% to MWK 3.3bn reinforcing the notion that the bank is desisting from expensive deposits or perhaps a late rally in deposit mobilisation towards the end of the year. The loan book remained largely flat at MWK 18.4bn - a necessary cautious approach given the bank's history with loan impairments. It is rather disheartening to see another MWK 4.1bn impairment adjustment especially after a capital raise of MWK 11bn through a rights issue in July 2017.

Operating expenses were 5% favourable at MWK 15.2bn but the revenues are still below the required levels to support operations. Hence cost-to-income ratios were uncontrollable at 117% a slight improvement from 123% in FY16 although this offers no consolation. The bank should be aiming to reduce these to between 55% and 60% without compromising on credit quality – no easy task.

There was a management shakeup at the bank and Rabobank were brought in to offer technical services for an initial three-year period. The recovery of the bank will be painfully slow in terms of loan book growth as "once bitten twice shy". We see that total placements in money market and on the interbank market shot up 140% to MWK 54bn but obviously the yields were low in a macro-economic environment where interest rates were trending downwards. Rabobank has a good record working with banks in the region and one hopes with the right support they should turn around the fortunes of the bank in the medium term. We currently rate the stock as a SELL.

NBS BANK PLC

| FY 17 NBS ("MWK MILLION") | 2017 | 2016 | % CHG |
|---|---|---|---|
| Interest income | 10,559 | 10,757 | 1.8% |
| Interest expense | -3,333 | -4,767 | 30.0% |
| Net interest income | 7,226 | 5,990 | 20.6% |
| Non-interest income | 6,853 | 7,736 | -11.4% |
| Total income | 14,079 | 13,726 | 2.6% |
| Total expenses | -16,567 | -16,843 | 1.6% |
| Impairment provisions | 1,073 | -7,545 | 114.2% |
| Net loss | -1,092 | -8,396 | 87.0% |

Source: Company filings

## Corporate action

### Dividends

| COMPANY | YEAR | TYPE | AMOUNT | LAST CUM DATE |
|---|---|---|---|---|
| Standard Bank | 2017 | Final | MWK 4.26 | TBA |
| BHL | 2017 | Final | MWK 0.15 | TBA |
| SUNBIRD | 2017 | Final | MWK 0.63 | TBA |
| TNM | 2017 | Final | MWK 0.25 | TBA |
| NITL | 2017 | Final | MWK 0.78 | 11-May-18 |
| NBM | 2017 | Final | MWK 8.33 | TBA |
| PCL | 2017 | Final | MWK 20.00 | TBA |
| NICO | 2017 | Final | MWK 1.00 | TBA |

Source: Company filings

## Company announcements and our commentary – *(this section is repeated)*

- MPICO – expects its FY17 results to be at least 100% higher than FY16. Towards the end FY16, MPICO raised MWK 9bn in a renounceable rights issue which effectively converted its loans to equity. The effect of this transaction was a reduction in finance charges on loans which was reported at MWK4.1bn in FY16. We believe this is the main driver of earnings for FY17. On the other hand, we think the reduction in debt burden should help unlock value in rental income, especially from the Gate Way Mall whose occupancy rates were reported to be on the rise. We therefore forecast a minimum of 25% growth in 2018 barring any setbacks, especially on the long outstanding government debt.Source: Company filings and Cedar Capital

## Market activity and colour

The market traded 1.8m shares in 11 of the 13 counters in 30 trades recording a market turnover of MWK 259.1m (USD 401K) during the week. This is to be compared to 8m shares worth MWK 362.8m (USD 493.6K) in 50 trades registered in the previous week.

FMBCH traded the most value worth MWK 170mm or 66% of the market with a total of 1.3m shares followed by Standard bank 69K shares worth MWK 44m.

PCL and OML led the risers putting up 13% each to close at MWK 680 and MWK 2,935 (ZAR 49) respectively – both rising on scraps. Other risers were Standard (4.9% to MWK 680) and Sunbird (2.8% to MWK 138).

The market has demand for BHL, FMBCH, PCL, STANDARD, OML and NBM. Sellers are available in MPICO, NICO, NBS and ILLOVO. In TNM there are sellers at MWK 20.00 while buyers are at MWK 18.00. **(Source: *MSE and Cedar Capital*)**

Cedar Capital Limited
4th Floor, Livingstone Towers
Sir Glyn Jones Road
P O Box 3340
Blantyre, Malawi
+265 1 831 995
Feedback: nzimar@cedarcapital.mw